Understanding the Strength of the Dollar

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We link the sustained appreciation of the U.S. dollar from 2011 to 2019 to international capital flows driven by primitive economic factors. We show that increases in foreign investors’ net savings, increases in U.S. monetary policy rates relative to the rest of the world, and shifts in investor demand for U.S. financial assets contributed approximately equally to the dollar’s appreciation. We then quantify the impact of potential future demand shifts for U.S. assets on the value of the dollar.

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